

# **DISCLOSURE BROCHURE FORM ADV, PART 2A**



## **Sheridan Production Partners Manager III, LLC**

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This brochure provides information about the qualifications and business practices of Sheridan Production Partners Manager III, LLC. If you have any questions about the contents of this brochure, please contact us at 713-548-1000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Sheridan Production Partners Manager III, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This document is not an offer to sell, or a solicitation of an offer to buy, an interest in any current or future Sheridan sponsored fund.

## **ITEM 2. MATERIAL CHANGES**

Sheridan Production Partners Manager III, LLC, filed its original Disclosure Brochure with its initial registration on September 14, 2020. This update reflects the assumption of investment advisory control over certain investment partnerships as further described in Item 4 below.

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## **ITEM 4. ADVISORY BUSINESS**

### **Firm Description**

Sheridan Production Partners Manager III, LLC, a Delaware limited liability company ("Sheridan" or the "Firm"), was formed in 2020. Sheridan is headquartered in Houston, Texas.

Sheridan SMG, LLC ("Sheridan SMG") owns 70% of the outstanding equity in the Firm in respect of Sheridan III and Sheridan SMG Supplemental, LLC ("SMG Supplemental") owns the remaining 30%. Lisa A. Stewart is a principal owner of the Firm by virtue of her ownership interest in Sheridan SMG and SMG Supplemental.

### **Types of Advisory Services**

Sheridan was formed for the purpose of assuming management and control of "Sheridan III" which consists of the following three oil and gas investment partnerships which are referred to herein as the "Funds."

- Sheridan Production Partners III-A, L.P. ("Fund III-A")
- Sheridan Production Partners III-B, L.P. ("Fund III-B")
- Sheridan Production Partners III-M, L.P. ("Fund III-M")

Effective January 1, 2021, affiliates of the Firm became the sole general partner of each of the Funds, and Sheridan was designated as the manager of each of the Funds under their respective limited partnership agreements (the "Governing Documents").

Sheridan exercises all management and investment decision-making authority with respect to the Funds, subject to limitations included in the Governing Documents or other agreements with the limited partners of the Funds. Sheridan has no clients other than the Funds and provides no advisory services other than those described herein. Sheridan is not currently contemplating raising any additional Funds in the near term, but may elect to do so in the future.

### **Tailored Advisory Services**

The Funds were organized for the sole purpose of making direct or indirect investments in hydrocarbon-producing properties in accordance with the specific investment guidelines set forth in their Governing Documents. All material decisions relating to the operation and management of the Funds, including, but not limited to, those relating to investments, divestitures, hedging, leverage, capital calls and distributions are overseen by an investment committee (the "Investment Committee") composed of members of Sheridan management and independent industry professionals, each with significant experience in the oil and gas exploration and production ("E&P") sector.

The Funds are generally not permitted to deviate from the investment mandates set out in the Governing Documents without the consent of their respective limited partners or the limited partner advisory committee established for the Funds (the “Advisory Committee”).

Material restrictions on Sheridan III investments include prohibitions on:

- Investing in properties located outside of the United States;
- Limitations on the aggregate amount of capital commitments that may be invested in any single field;
- Engaging in hedging or other derivative transactions purely for speculative purposes;
- Investing in any “blind pool” type investment fund as to which the general partner or manager thereof is entitled to a carried interest, performance fee or management fee; and
- For Fund III-B, Sheridan is required to use reasonable best efforts to operate such Funds in a manner that will not generate unrelated business taxable income.

As of the date of this Brochure, the Investment Period for Sheridan III has expired and the Funds are generally restricted from making further acquisitions of oil and gas properties other than limited “Follow-On Investments” associated with assets already owned.

### **Client Assets Under Management**

The value of the Firm’s regulatory assets under management was \$629,000,000 as of September 30, 2020, inclusive of \$200,000,000 of uncalled equity commitments. Sheridan manages all of these assets on a discretionary basis.

## **ITEM 5. FEES AND COMPENSATION**

### **Management Fees**

In return for its advisory services, Sheridan receives a management fee (the “Management Fee”) from Fund III-A and Fund III-B. The Management Fee is payable quarterly in advance. Pre-paid Management Fees are generally not subject to refund. However, as required by the Investment Advisers Act of 1940, if Sheridan is removed as the manager of a Fund prior to the end of the applicable period, management fees will be charged on a pro rata basis through to the date of removal, and any fees paid in advance but not earned will be refunded. Fund III-M does not pay management fees.

The amount of the Management Fees payable with respect the Funds are calculated in accordance with their Governing Documents. The Management Fee is calculated by assessing a specified rate against the lesser of the value (calculated in accordance with the Governing Documents) of the limited partners' interest in the Fund or the aggregate limited partner capital commitments.

Management Fees are subject to reduction by 100% of the amount of certain additional fees received by Sheridan in connection with the Funds' investments, as described below under "Other Fees." Management Fees may be funded from cash flows received in respect of a Fund's operations or through capital contributions by limited partners.

### **Other Fees**

None of Sheridan or its affiliates charges the Funds any fees other than the Management Fee. Any transaction fees or other fees received by Sheridan or its affiliates from third parties related to the Funds' investments are applied entirely to reduce the Management Fee (excluding any third-party fees received as operator of properties under standard joint operating agreements, which would reduce Fund Expenses (as defined below) on a dollar-for-dollar basis).

### **Fund Expenses**

Each Fund bears all expenses associated with its investment program and operations ("Fund Expenses"), including, without limitation, fees, costs and expenses related to proposed and actual purchases and sales of properties, expenses incurred in the operation of the Fund and development of its properties (including, without limitation, expenses of custodians, counsel and auditors, and any insurance, indemnity or litigation expenses), all costs of the Funds' administration (including, but not limited to, preparation of financial statements and reports to limited partners, interest, fees and other amounts payable in connection with any leveraging, and costs of holding any meetings of limited partners), and any taxes, fees or other governmental charges levied against such Funds. In addition, the Funds are responsible for all fees and expenses due to any legal, financial, accounting, consulting or other advisors, or any lenders, investment banks and other financing sources in connection with transactions that are not consummated.

One or more of the Firm's wholly-owned subsidiaries (collectively, "SPC III"), manage the day-to-day operation and administration of the Funds' oil and gas properties and employs engineers, geoscientists, accountants, attorneys, land professionals and other office staff and field level personnel to carry out these activities. SPC III does not charge the Funds a fee for these services; however, all expenses associated with the operation and administration of the Funds (including compensation expenses for such personnel) are reimbursed by the Funds at cost as Fund Expenses unless included in Manager Expenses, as described below. In the ordinary course of business, SPC III receives revenues and pays expenses associated with the properties owned by the Funds. Sheridan accounts for all such revenues and expenses as among the Funds, and cash held by SPC III is allocated to the Funds on the quarterly financial statements delivered to limited partners.

Fund Expenses that are common to more than one Fund are allocated among the Funds as reasonably determined in good faith by Sheridan. As is customary in the oil and gas

business, field-level operating expenses are charged against the applicable property and allocated to the Funds in proportion to their working interest ownership therein, with any expenses recouped from third-party interest owners being credited back against such costs in the same percentages as borne by the Funds. The Firm allocates general and administrative expenses based on estimates of effort expended, benefit received, assets under management, and other methods that are reasonable under the circumstances, which methods may vary for the different categories of Fund Expenses and are reviewed from time to time.

### **Manager Expenses**

The Firm is responsible for paying, without reimbursement from the Funds, an allocated portion of the compensation and employee benefit expenses, and rent and other occupancy costs, of Sheridan's senior management team and certain additional management and/or investment professionals. The scope of these costs that are borne by the Firm varies by Fund and is set forth in the Governing Documents.

## **ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As additional compensation for Sheridan's services, affiliates of the Firm receive distributions of carried interest from the Funds (other than Fund III-M) based on a share of realized gains obtained by each such Fund. All carried interest distributions are calculated on the basis of actual cash distributed to limited partners as opposed to the value of Fund assets. The methodology for calculating such carried interest distributions is set forth in the Governing Documents. Portions of the Management Fee and carried interest distributions for each Fund are distributed to certain of our supervised persons.

Carried interest distributions may create an incentive for Sheridan and its supervised persons to make investments on behalf of the Funds that may be riskier or more speculative than would be the case in the absence of such carried interest distributions. This potential conflict is mitigated by the fact that Sheridan supervised persons have made substantial personal investments in each series of Funds.

## **ITEM 7. TYPES OF CLIENTS**

Sheridan's only clients are the Funds, all of which are subject to the direction and control of Sheridan. Each of the Funds is exempt from registration as an investment company under both Section 3(c)(7) and Section 3(c)(9) of the Investment Company Act of 1940, and none of the Funds are private funds (as defined in the instructions to Form ADV).

Investors in the Funds include, but are not limited to, pension plans, endowments, foundations, pooled investment vehicles, trusts, estates, high net worth individuals, charitable organizations and corporate or business entities.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Investment Strategy**

Sheridan's investment strategy for the Funds is to generate attractive, relatively low-risk returns, current cash distributions, and long-term exposure to oil and gas prices by:

- acquiring a diverse portfolio of mature, predictable oil and gas producing properties within various basins in the United States;
- optimizing the operation of those properties to control costs and investing capital to accelerate production and enhance recoveries;
- hedging production for several years after an acquisition in order to protect cash flows and base rates of return, and opportunistically thereafter; and
- enhancing total return through prudent leverage.

### **Investment Analysis**

Prior to making any investment on behalf of a Fund, Sheridan undertakes an extensive technical and financial evaluation of the assets. Due to the intensive manpower requirements of Sheridan's technical evaluation methodology, Sheridan limits evaluations to those properties that clearly fit its investment criteria and which have a reasonably high probability of success. A typical Sheridan technical evaluation involves reservoir and production engineers, geoscientists, landmen, operations personnel, marketing professionals, and environmental, health and safety specialists. This detailed evaluation by the technical staff that would be operating and developing the properties, if acquired, is a key element of the Sheridan business model in that it provides a keen understanding of value drivers in any asset package and establishes a culture of accountability for future development and profitability of the assets. In addition to the detailed technical evaluation, financial professionals model the resulting expected asset-level cash flows to estimate equity level returns to investors, including the effects of hedging and leverage.

After closing, Sheridan tracks and reports all key operating and financial parameters on each of its acquisitions relative to the original acquisition assumptions. Sheridan also performs look-back analyses on all acquisitions beginning one year after closing. These analyses are updated twice per year to compare actual results to acquisition forecasts.

### **Risk of Loss**

The success of the Funds will largely depend on Sheridan's ability (i) to identify investment opportunities that meet its investment criteria, (ii) to accurately evaluate the opportunities and to negotiate advantageous terms relating to the acquisition of its investments, and (iii) to operate the properties prudently and efficiently, including by enhancing production and increasing reserves. Sheridan may not be able to acquire a sufficient quantity of suitable producing properties at reasonable prices, may not correctly assess the properties, or may not be as successful in operating the properties as it had forecast.



The Funds' investments are concentrated in oil and gas producing properties in the United States, the value of which is directly correlated to existing reserves, expected future reserves and production rates, and forward prices for oil and natural gas, which are highly volatile and dependent on numerous factors that are beyond the control of the Funds and Sheridan. While the Funds' investments are generally diversified across multiple wells, they may be concentrated in a limited number of portfolio acquisitions, or in a single producing basin, geographic region or type of geological play, and therefore the Funds' entire portfolio of properties may be subject to a common set of operational and investment risks. Although Sheridan's strategy is generally to hedge a significant proportion of anticipated near- to medium-term production around the time of acquisition of a property, it does not typically hedge longer-term production, and amounts actually realized by the Funds, particularly in the later years of their respective terms, will inevitably be impacted by changes in prevailing prices for oil and natural gas.

Sheridan causes the Funds to leverage their investment program and cash flow needs in amounts deemed prudent from time to time by Sheridan and approved by the Investment Committee. While this leverage component is intended to enhance the equity returns to investors, the leverage also magnifies the risk of loss if the value of a Funds' assets declines. Furthermore, there can be no assurance that leverage will be available to the Funds in amounts and on terms desired.

Sheridan causes the Funds to enter into commodity-price risk management transactions for a portion of expected production. While such hedging techniques are intended to reduce the effects of volatile oil and gas prices, commodity-price risk management transactions may limit potential gains if oil and gas prices rise substantially over the price utilized in the acquisition evaluation. Conversely, commodity-price risk management transactions may be insufficient if oil and gas prices decline significantly. In addition, hedging transactions may expose a Fund to the risk of financial loss regardless of the underlying value of its oil and gas properties. Furthermore, there can be no assurance that Sheridan will be able to execute the transactions necessary to implement its hedging strategy.

A public health crisis, such as the recent outbreak of the COVID-19 global pandemic, can have unpredictable and adverse impacts on global, national and local economies, which can in turn negatively impact a Fund and its investment performance. Disruptions to commercial activity (such as the imposition of quarantines or travel restrictions) or, more generally, a failure to contain or effectively manage a public health crisis, may adversely impact the business of a Fund or the value of its portfolio of assets. In addition, such disruptions can negatively impact the ability of the Company's personnel to effectively identify, monitor, operate and dispose of investments. Finally, the outbreak of COVID-19 has contributed to, and may continue to contribute to, extreme volatility in financial markets. Such volatility could adversely affect the Sheridan's ability to raise capital or find financing for a Fund or identify potential purchasers of a Fund's investments, all of which could have material and adverse impact on a Fund's performance. The impact of a public health crisis such as COVID-19 (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict and presents material uncertainty and risk with respect to a Fund's performance.

Sheridan does not guarantee the future performance of the Funds or any specific level of performance, the success of any investment decision or strategy that Sheridan may use, or the success of Sheridan's overall management of the Funds. Investment decisions that Sheridan makes for the Funds are subject to various market, economic, political and business risks, and those investment decisions will not always be profitable and may result in a total loss of invested capital.

The foregoing does not purport to be a complete list of all risks to which the Funds are subject. Investors in the Funds should review the Governing Documents and private placement memorandums carefully for a more detailed discussion of the potential risk factors applicable to their particular Funds.

#### **ITEM 9. DISCIPLINARY INFORMATION**

There have been no disciplinary actions against Sheridan or any of its management persons that would be material to a client's or prospective client's evaluation of Sheridan or its advisory business.

#### **ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

##### **Affiliations among Sheridan and the Funds or among the Funds**

The potential for conflicts of interest exists between the Funds, on the one hand, and Sheridan, on the other, or among individual Funds. Sheridan management oversees the operation of all of the Sheridan Funds, which creates potential conflicts in the allocation of management resources at times when there are multiple series of Funds in operation. There are also potential conflicts of interest in the allocation of general and administrative expenses among the Funds.

In addition, the organizational structure of each series of Sheridan Funds requires that certain transactions involving conflicts of interest be entered into between Funds or between a Fund and an affiliate of the Firm. For example, (i) Fund III-B purchases net profits interests in all oil and gas properties acquired by Fund III-M, (ii) Fund III-B lends funds to Fund III-M in connection investments made by Sheridan III, and (iii) a Sheridan affiliate owns preferred equity interests issued by Fund III-B that earn a return which is, in part, determined by Sheridan. These structural conflicts were fully disclosed in the offering materials for the applicable series of Funds and are specifically authorized in the Governing Documents. Transactions between a Fund, on one hand, and Sheridan (or an affiliate of Sheridan, including another Fund), on the other, generally require the consent of the Advisory Committee of such Fund unless falling within exceptions specified in the Governing Documents.

Furthermore, prior to the date upon which a series of Funds is fully invested, Sheridan may allocate new investments partly to such Fund series and partly to a different Fund series. The Governing Documents expressly include provisions regarding co-investment by successor Funds; however, such transactions could nonetheless present various conflicts of interest, including in connection with reinvestment and divestiture decisions.

The Funds' general partners are required periodically to disclose to the Advisory Committee the terms of any material contracts or transactions entered into between a Fund, on the one hand, and any of the general partners, their affiliates or any other Fund, on the other.

## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### **Code of Ethics**

Sheridan has adopted a Code of Ethics that describes the general standards of conduct that Sheridan expects of its Supervised Persons, as defined in the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and focuses on three specific areas where conduct of Supervised Persons has the potential to adversely affect the client:

- Misuse of nonpublic information;
- Personal securities trading; and
- Conflicts of interest (including allocation of investment opportunities, related party transaction and outside business activities).

Failure to abide by the Code of Ethics may result in disciplinary sanctions, including termination of a Supervised Person's employment with the Firm. Any client or prospective client may request a copy of the Firm's Code of Ethics, which will be provided at no cost.

The following basic principles guide all aspects of the Firm's business and represent the minimum requirements to which the Firm expects Supervised Persons to adhere:

- Clients' interests come before Supervised Person's personal interests and before the Firm's interests.
- Supervised Persons must operate on the Firm's and their own behalf consistently with the Firm's disclosures to and arrangements with its clients regarding conflicts, and with the Firm's efforts to manage the impacts of those conflicts.
- The Firm and its Supervised Persons must not take inappropriate advantage of their positions of trust with, or responsibility to, clients.
- The Firm and its Supervised Persons must always comply with all applicable securities laws.

### *Misuse of Nonpublic Information*

The Code of Ethics contains a policy prohibiting the misuse of nonpublic information. Supervised Persons may not convey nonpublic information nor depend upon it in placing personal or client securities trades.

### *Personal Securities Trading*

Access Persons (as defined in the Advisers Act) are required to submit reports of personal securities trades on a quarterly basis and securities holdings annually. These reports are reviewed to ensure compliance with Sheridan's policies.

### *Conflicts of Interest*

The Code of Ethics generally requires disclosure by Supervised Persons of any conflicts of interest with the Firm or its clients and pre-approval of any transaction that could be deemed to constitute a conflict.

### **Interest in Client Transactions**

As described in "Item 10. Other Financial Industry Activities and Affiliations - Affiliations among Sheridan and the Funds or among the Funds" above, certain Funds issue preferred equity interests to affiliates of Sheridan, and certain Funds enter into transactions with each other. These transactions are required by the organizational structure of each series of Sheridan Funds and are expressly contemplated by the Governing Documents.

Sheridan supervised persons have made substantial personal investments in each series of Funds. These investments are made through a dedicated Fund for each series that acquires a pro rata interest in all assets acquired by such series. These investments were contemplated in the original offering documents for the Funds and we believe work to align the interests of Sheridan and our investors.

## **ITEM 12. BROKERAGE PRACTICES**

Sheridan does not engage in securities transactions through broker-dealers as part of the investment program of the Funds.

## **ITEM 13. REVIEW OF ACCOUNTS**

As manager of the Funds, Sheridan is responsible for day-to-day oversight of the Funds' operations and assets. Through our affiliate operating company, SPC III, the Firm administers all accounts and transactions on behalf of the Funds under the direction of our senior management team and the Investment Committee.

Limited partners in each of the Funds receive the following with respect to the Fund in which they have invested:

- annual audited financial statements and quarterly unaudited financial statements;
- an annual report with respect to the hydrocarbon reserves of such Fund prepared by an independent petroleum engineering firm;
- annual tax information for the completion of such limited partner's individual tax return; and
- a quarterly unaudited statement of such partner's capital account in the Fund, prepared on a fair value basis.

#### **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

Sheridan has not retained a placement agent in connection with the offering of interests in the Funds.

#### **ITEM 15. CUSTODY**

Due to its position as manager and its affiliates' position as general partner, Sheridan is deemed to have custody of all funds and securities of the Funds. All account statements are delivered to Sheridan (or its affiliates) on behalf of the Funds. See Item 13. above for a discussion of reports sent to investors in the Funds.

#### **ITEM 16. INVESTMENT DISCRETION**

Subject to the limitations set forth in the Governing Documents, Sheridan has sole discretion regarding the acquisition and disposition of assets on behalf of the Funds, the size or amount of each asset to be bought or sold, and the price at which the Funds' assets are acquired or disposed. In addition, Sheridan has the authority to deduct fees, expenses and performance allocations from amounts otherwise distributable to the limited partners' accounts.

#### **ITEM 17. VOTING SECURITIES**

None of the Funds invest in voting securities. As such, Sheridan does not exercise any voting authority rights on behalf of the Funds. Rule 206(4)-6 under the Advisers Act requires registered investment advisers to adopt and implement policies and procedures related to voting of client securities to the extent that it exercises such authority. In the event that any Fund acquires voting securities in the future, Sheridan will comply with the obligations of Rule 206(4)-6.

#### **ITEM 18. FINANCIAL INFORMATION**

Sheridan is not required to provide any financial information because we do not require the prepayment of fees more than six months in advance. There is no financial condition that is reasonably likely to impair Sheridan's ability to meet its contractual obligations to its clients.